

COMPLIANCE WITH CITY FINANCIAL POLICY

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Included in this section are various schedules pertaining to the City of Hampton's Financial Policies and how this budget complies with these policies.

FINANCIAL POLICIES

General Fund

The City Council adopted a set of financial parameters to guide future City expenditure patterns. These financial policies and their compliance with the approved budget are outlined in this section.

City Tax Revenue Guideline

City Council approved a guideline for budget development in which real estate tax revenue growth (net of new construction) from one fiscal year to the next shall be limited to the equivalent percentage increase of an inflationary growth factor as measured by either the consumer price index for urban dwellers (CPI-U) or resident income growth (RI); whichever is greater in any given year. To the extent that budgetary needs require real estate revenues to grow faster than this factor, the Manager and Council shall explicitly explain the budget driving factors causing this so that residents may have a concise and clear understanding of the need to deviate from this financial guideline.

For FY 2013, the real estate assessment growth is expected to decline an average 4.5%. This decline is below the guidelines established by City Council and therefore, the guideline stated above was not applied to the Fiscal Year 2013 Budget.

City Financial Policy

In April 2007, the City Council amended its existing financial policies. The financial policies relate to general operating elements of the City. These policies are used as financial planning parameters during the annual budget process. The five (5) financial policies and the actual results are summarized below. The City's FY13 Manager's Recommended Budget is in compliance with all five policies.

1. Debt Limit Policy #1. This policy is comprised of three guidelines as outlined below:

- (a) General obligation debt shall not exceed 3% of the assessed value of all real estate within the City subject to taxation. The legal debt limit authorized by the Virginia State Statute limits bond issuing authority up to 10% of the assessed value. The FY13 estimated general obligation debt will total \$285 million or 2.7% of taxable real estate value (\$10,485,644,327), which is within the policy parameter.
- (b) General obligation bonded debt together with indirect debt, which includes certain revenue backed debt and subject-to-appropriation or moral obligation commitments, and debt of certain special purpose entities (i.e. Community Development Authority) shall not exceed 4.5% or \$515.8 million of the estimated FY13 assessed value of all real and personal property subject to taxation within the City. The current level of net direct/indirect/overlapping debt is \$477.4 million or 4.2% of the assessed value of all taxable real and personal property which is within the policy parameter.

FINANCIAL POLICIES

- (c) Debt of certain special purpose entities, such as community development authorities, shall not exceed 1% of the assessed value of all real and personal property subject to taxation within the City. The expected amount is \$101.8 million or 0.9% of the approximate FY13 assessed value of all taxable real and personal property, which is within the policy parameter.
2. **Debt Service Limit Policy #2.** General obligation bonded debt and indirect debt shall not exceed 10% or \$43.9 million of the City's total General Fund, School Operating Fund and Convention Center expenditures of which all are included in the City's total debt service. The total annual debt service cost equals \$38.1 million or 8.7% of total expenditures, which is within the policy parameter.
3. **Debt Retirement Policy #3.** The City shall retire 60% of the principal balance of general bonded obligation debt within 10 years of the date the debt is issued. The City will retire approximately \$197.3 million or 69.2% of general bonded obligation debt within the next 10 years.
4. **Equity Funding Policy #4.** This policy is comprised of two guidelines as outlined below:
- (a) A minimum of 2% to 6% of general fund revenues will be applied to Capital Improvement Plan (CIP) projects each year. For FY13, the percentage of revenues utilized for capital expenditures are estimated to be \$10.9 million which is 3.6% of General Fund revenues.
- (b) A minimum of 10% to 15% of CIP projects over a rolling five-year period are to be funded from general fund revenues. For the five year period, FY13 through FY17, the City plans to use an estimated \$55.5 million or 56.3% of General Fund revenues on CIP projects.
5. **Unassigned Fund Balance Policy #5.** The City will maintain an unassigned General Fund balance equal to 10% of total General Fund and School Operating Fund revenues less School transfers. The unassigned fund balance at June 30, 2012 is forecasted to be \$55.7 million of which \$3.6 million will be utilized for one-time operating expenditures and the capital budget in fiscal year 2013. This will leave a remaining unassigned fund balance of \$52.0 million. For FY13, the estimated revenues are projected to total \$424.2 million; ten percent or \$42.4 million is the minimum required unassigned fund balance. The City's projected FY13 balance will be \$52.0 million which is in excess of this policy by \$9.6 million at 12.3%. To the extent unassigned fund balance falls below the policy, the shortfall shall be replenished over a three-year period.

The City is in compliance with the Financial Policy Guidelines.

CREDIT RATINGS

The City's credit ratings are as follows: AA+ by Standard and Poor's, Aa1 by Moody's Investor Services and AA+ by Fitch Rating. A credit rating is a financial indicator to the public/investor as to the credit worthiness (quality) of a debt issue such as bonds. *See **Debt Management Policies**, for further details.*

FINANCIAL POLICIES

Debt Limit Policy

Fiscal Year 2013

POLICY #1(A):

A) General Obligation (direct) bonded debt shall not exceed 3% of taxable real estate assessed valuation. ⁽¹⁾

Total Taxable Real Estate Assessed Valuation	\$	10,485,644,327
3% of Taxable Real Estate Assessed Valuation	\$	314,569,330
Total General Obligation (GO) Debt	\$	285,006,212
Percentage of GO Debt to Assessed Valuation		2.7%
In Compliance With Policy #1(A)		Yes

POLICY #1(B):

B) Direct/Indirect/Overlapping debt to total taxable valuation shall not exceed 4.5%. Overlapping debt shall not exceed 1% of total valuation.

Total Taxable Valuation (includes Real and Personal Properties)	\$	11,463,359,330
4.5% of Total Taxable Valuation	\$	515,851,170
Total Net Direct/Indirect/ Overlapping Debt ⁽²⁾	\$	477,381,212
Percentage of Debt to Taxable Valuation		4.2%
In Compliance With Policy #1(B)		Yes

POLICY #1(C):

C) Special purpose debt shall not exceed 1% of total taxable valuation.

Total Taxable Valuation (includes Real and Personal Properties)	\$	11,463,359,330
1% of Total Taxable Valuation	\$	114,633,593
Total Overlapping Debt	\$	101,765,000
Percentage of Special Purpose Debt to Taxable Valuation		0.9%
In Compliance With Policy #1(C)		Yes

(1) Net bonded debt outstanding includes existing and proposed general obligation bonds, general obligation notes payable, Virginia Air and Space Revenue Bonds, VRS Bonds and Literary loans less bonds funded with Stormwater and Steam Plant revenues.

(2) Net Direct/Indirect/Overlapping Debt includes existing and proposed general obligation bonds, general obligation notes payable, VRS bonds, literary loans, revenue bonds for the Hamptons Golf Course, Virginia Air and Space Center and Convention Center overlapping debt, less bonds funded with Stormwater and Stream Plant revenues. Overlapping debt consist of the H₂O and CDA debt.

FINANCIAL POLICIES

Debt Service Limit Policy

Fiscal Year 2013

POLICY #2

Debt service (direct and indirect) shall not exceed 10% of total expenditures of General Fund plus expenditures of City's public school system.

10% Total Expenditures ⁽¹⁾	\$	43,900,634
Annual Debt Service Cost (DSC) ⁽²⁾	\$	38,125,862
Debt Service		8.7%
In Compliance With Policy #2		Yes

(1) Total expenditures includes School operating expenditures and Convention Center expenditures.

(2) Annual debt service cost includes debt service on all general obligation bonds, general obligation notes payable, VRS bonds, literary loans, revenue bonds for the Hamptons Golf Course, Virginia Air and Space Center and Convention Center less bonds funded with Stormwater and Steam Plant revenues.

FINANCIAL POLICIES
Debt Retirement Policy
Fiscal Year 2013

POLICY #3

The 10 year payout ratio shall not be less than 60% for
General Obligation Indebtedness.

Total General Obligation Indebtedness	\$ 285,006,212
Amount retired within 10 years *	\$ 197,295,827
10 year payout ratio	69.2%
In Compliance With Policy #3	Yes

FINANCIAL POLICIES

Equity Funding Policy

Fiscal Year 2013

POLICY #4(A):

A) Minimum of 2% to 6% of General Fund revenues applied to capital projects per year.

Total General Fund Revenues (less Schools)	\$	304,087,767
2% of Total General Fund Revenues	\$	6,081,755
6% of Total General Fund Revenues	\$	18,245,266
Total General Revenues Transferred to CIP for FY13	\$	10,871,039
Percentage General Fund Revenues Applied		3.6%
In Compliance With Policy #4(A)		Yes

POLICY #4(B):

B) Minimum of 10% to 15% of total Capital Improvement Plan (CIP) over a rolling 5 year period to be funded from General Fund revenues.

Total FY13-17 (5 year) CIP Revenues	\$	98,683,128
10% of Total General Fund Revenues	\$	30,408,777
15% of Total General Fund Revenues	\$	45,613,165
Total FY13 - FY17 General Fund Revenues for CIP	\$	55,546,040
Percentage Funded from General Fund Revenues		56.3%
In Compliance With Policy #4(B)		Yes

FINANCIAL POLICIES

Unassigned Fund Balance Policy

Fiscal Year 2013

POLICY #5

- A) Unassigned fund balance shall be maintained at a level of not less than 10% of total revenues. To the extent that the unassigned fund balance is drawn upon, replenishment of such amount drawn shall occur over 3 years.

Estimated Revenues less General Fund Transfers	\$ 424,216,769
10 % of Total Revenues	\$ 42,421,677
Estimated Unassigned Fund Balance at June 30, 2012*	\$ 52,053,255
Estimated Fund Balance as a Percentage of Estimated Revenues	12.3%
In Compliance With Policy #5	Yes

* Estimated Unassigned Fund Balance was reduced by the projected FY13 Utilization of Fund Balance which totals \$3,607,500.

ANALYSIS OF ESTIMATED UNASSIGNED GENERAL FUND BALANCE

ABOVE FINANCIAL POLICY GUIDELINES FOR FY 2013

FY 2013 Manager's Recommended Operating Budget (Less General Fund Transfers)*	\$424,216,769
Estimated Fund Balance per Policy - 10%	42,421,677
Projected Fund Balance at June 30, 2012	<u>55,660,755</u>
Estimated Fund Balance in Excess/ (Deficit) of Policy	13,239,078
Fund Balance Utilized in the FY 2013 Budget:	
Less: Fund Balance Committed for FY13 Capital Improvement Plan	(2,500,000)
Less: Fund Balance Committed for FY13 One-time Operating Expenditures	<u>(1,107,500)</u>
	<u>(3,607,500)</u>
Estimated Unassigned Fund Balance in Excess/ (Deficit) of Proposed Policy	\$ 9,631,578

* Includes \$2.0 million transfer for the Schools Operating Fund

UNASSIGNED GENERAL FUND BALANCE HISTORY Fiscal Years 2003 - 2012

	<u>Amount (in millions)</u>	<u>Percentage of Operating Budget</u>
Undesignated Fund Balance -- June 30, 2003	\$ 29.01	9.3%
Undesignated Fund Balance -- June 30, 2004	28.52	8.2%
Undesignated Fund Balance -- June 30, 2005	42.31	11.4%
Undesignated Fund Balance -- June 30, 2006	52.21	13.1%
Undesignated Fund Balance -- June 30, 2007	54.60	12.8%
Undesignated Fund Balance -- June 30, 2008	55.99	12.7%
Undesignated Fund Balance -- June 30, 2009	53.74	12.5%
Undesignated Fund Balance -- June 30, 2010	56.56	13.9%
Unassigned Fund Balance -- June 30, 2011	49.87	11.9%
Projected Unassigned Fund Balance -- June 30, 2012	52.05	12.3%

Note: During the 2007 fiscal year, Council approved the increase of the policy guideline from 7.5% to 10%. The rating agencies consider an adequate fund balance to be an indicator of a strong financial position and prudent financial management.

DEFINITIONS OF AMOUNTS USED TO CALCULATE COMPLIANCE WITH CITY'S FINANCIAL POLICIES

1. **Annual Budget** ~ represents the total General Fund estimated revenues and appropriations approved by City Council in the annual appropriation ordinance.
2. **Assessed Value** ~ this refers to the assessed value of all taxable real estate within the geographic boundaries of the City as of the most recent annual appraisal by the City Assessor's Office, except amount labeled estimates. This amount is based on the City Assessor's estimate prior to actual appraisal.
3. **Capital Expenditures** ~ represent the amounts appropriated in the General Fund to fund major Capital Improvements and Economic Development projects.
4. **CIP** ~ Capital Improvement Plan is a five-year plan outlining the funding for major purchases, acquisition and/or construction of capital assets.
5. **Debt Service** ~ the City's payment of principal and interest related to all long-term debt according to a pre-determined payment schedule.
6. **Local Revenues** ~ equal all General Fund revenues, except State revenue and Federal aid.
7. **Overlapping Debt** ~ there are no overlapping debt or underlying tax jurisdictions.
8. **Net Bonded Debt** ~ this amount represents the unmatured, unpaid and outstanding General Obligation Bonds of the City as of June 30 of each year shown.
9. **Total Estimated Revenues** ~ represent the total General Fund estimated revenues, less State and Federal revenues received exclusively for public school operations.
10. **Unassigned Fund Balance** ~ is the General Fund balance net of reserves and other restricted (special purpose) amounts (sometimes referred to a fund balance available for appropriation).